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INTERNAL AUDIT DEPARTMENT

Audit No. 2216

November 18, 2002

TO: Juliette A. Poulson, Director
Health Care Agency

SUBJECT: Follow-Up of Department Control Review of Health Care Agency
Revolving Fund, Audit No. 2136

We have completed a follow-up examination of the Health Care Agency (HCA) revolving fund process. Our examination was limited to a review, as of August 30, 2002, of actions taken to implement the recommendations made in our audit report dated March 19, 2002.

The audit report contained seven report items and eleven recommendations. Our review indicated that seven recommendations have been fully implemented and four partially implemented. During our review, we noted an additional issue concerning an unused Bank of America account containing some revolving fund monies. Although our review was limited to Purchasing Services and Human Resources, we believe the recommendations are still appropriate and apply to all HCA locations with revolving funds; thus, further efforts should be made to fully implement them.

The audit report recommendations that have not been fully implemented are noted below along with a comment on the current status. The item number from the March 19, 2002 report is shown in parentheses after the heading.

1. Checking Account Reconciliation (No. III.B)

Recommendation: HCA management ensure the checking account reconciliation is performed accurately, completely, reviewed/approved by a supervisor, and old outstanding items researched and resolved.

Current Status: Partially Implemented. As of August 2002, HCA has taken steps to ensure that revolving fund checking account reconciliations are reviewed and approved by a supervisor. Also, HCA is in the process of researching and clearing old/outstanding checks; however, approximately \$3,563 in outstanding checks are still in need of resolution. During this review, some other issues came to our attention: account reconciliation had not been performed timely since February 2002, reconciliations were not dated by either the preparer or reviewer, and the reconciliations reflected an inaccurate bank balance.

HCA Response: To be fully implemented by November 30, 2002. To date, HCA has resolved 80% of the outstanding checks in question; by November 30, 2002, all remaining checks older than six months will be cancelled. In addition, account reconciliation is now being performed monthly with reconciliation signed and dated by both the preparer and reviewer.

2. Recording (No. IV)

Recommendation: HCA management ensure that check disbursements are recorded in the check register when the check is generated to accurately reflect the account balance.

Current Status: Partially Implemented. Due to limitations in HCA's automated check register system, manual (expedited) checks cannot be recorded in the check register at the time of disbursement. The system requires certain information to be entered, such as account coding, in order to finalize and record the disbursement in the register. This information is not always available when the manual check is generated. HCA is in the process of evaluating a suitable solution to this issue. In the meantime, HCA has implemented a log to track and monitor the issuance of manual checks.

HCA Response: To be fully implemented by July 1, 2003. HCA is evaluating alternative software solutions that would allow all check disbursements to be recorded sequentially and accurately reflect the account balance. HCA plans to implement a new system by July 1, 2003.

3. Asset Security (No. V)

Recommendation: HCA management ensure surprise cash counts of petty cash/change funds and inventory of unused revolving fund check stock are performed periodically by a person independent of the revolving fund process.

Current Status: Partially Implemented. HCA has taken steps to implement periodic surprise cash counts of petty cash/change funds and have performed cash counts at two locations so far. HCA has also implemented periodic physical inventory of unused check stock. However, the inventory is performed by an individual with other conflicting revolving fund duties.

HCA Response: Implemented. HCA has assigned two persons who do not have conflicting revolving fund duties to perform the check inventory.

4. Authorized Use (No. VI)

Recommendation: HCA management ensure all petty cash and change funds are used for authorized purposes in accordance with CAP 2 criteria.

Current Status: Partially Implemented. We noted that HCA provided refresher training to staff on the appropriate procedures and uses of revolving funds. During our review, we did not identify any instances where revolving funds were being used for unauthorized purposes. However, we observed that \$100 of a \$1500 change fund maintained at the Public Health Administration location was still categorized as a cash difference fund, which is not an authorized use of revolving funds according to CAP 2. HCA has properly recategorized the \$100 as change funds and is awaiting replenishment of a \$50 cash difference transaction.

HCA Response: Will be fully implemented upon replenishment of the \$50 cash difference transaction. HCA has reminded Public Health Administration of the appropriate use of revolving funds. HCA will continue to utilize internal surprise counts to monitor the use of revolving funds, and the results of those audits and any corrective and preventative action will be recorded.

During the performance of the follow-up, an additional issue was noted:

5. Bank of America Account

In the summer of 2001, the County changed it's primary banking institution from Bank of America to Wells Fargo. HCA opened a checking account with Wells Fargo bank for revolving funds in July 2001. We noted that the Bank of America checking account is still open over 14 months later.

The account has had a balance of \$4,341.50 and is pending a review to clear outstanding, stale checks and to close the account. Monies held in unused accounts could be used for current revolving fund expenditures.

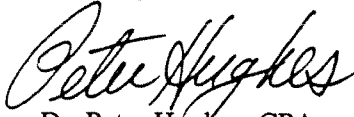
Recommendation

HCA management ensure the Bank of America checking account is reviewed for outstanding checks and deposit the remaining monies into the current Wells Fargo checking account.

HCA Response: Implemented. The Bank of America account was closed September 23, 2002 and funds were deposited into the Wells Fargo account. Old checks have been voided and new checks issued.

We appreciate the cooperation and assistance extended to us by the staff of the Health Care Agency during our review.

Sincerely,



Dr. Peter Hughes, CPA
Director, Internal Audit

cc: Members, Board of Supervisors
Members, Audit Oversight Committee
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
Alice Manning, Interim Deputy Agency Director, HCA
Alice Swarder, Manager, HCA/Accounting Services
Judy Cobb, Manager, HCA/Management Services